



COMMISSION NEWS

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ARIZONA CORPORATION COMMISSION WARNS INVESTORS ABOUT RISKY, FRAUDULENT PROMISSORY NOTES

Phoenix, Arizona (July 19, 1999): The Arizona Corporation Commission, the state's securities regulator, is warning investors about promissory notes, often sold by insurance agents and others, that promise high interest rates but are in fact very risky and often fraudulent. The sale of fraudulent promissory notes has become a nationwide problem. Along with residents in other states, Arizona investors have been victimized by promissory note scams.

"Interest rates are lower than they've been in a generation. While that's been great for the economy it's been hard on people dependent on interest income--and desperate people make tempting targets for crooks," says Mark Sendrow, Securities Director at the Corporation Commission.

These promissory notes are often sold by life insurance agents--lured by high commissions--who may know nothing about the promoters of the investments beyond what they're told. The agents also may not realize that they must be licensed as securities brokers with state securities regulators to sell securities. Some notes are issued on behalf of companies that do not even exist.

The promissory note scam often may involve a life insurance agent who touts an intriguing investment opportunity involving a "well-established" company looking to expand its business. The company purportedly needs to raise capital. Instead of borrowing money from a traditional lender such as a bank it is offering investors an opportunity to purchase "promissory notes," typically with a *maturity* of nine months and an annual interest *rate* between 12% - 18%, far higher than an investor could get elsewhere. Agents pressure clients to "cash-in" their life insurance policies and "roll" them into these notes.

Commissioner Carl J. Kunasek warns that "these investments are likely to be obligations of fraudulent institutions that either abscond with the clients' money when the notes mature or use a "Ponzi scheme" to pay Peter with new money from Paul."

The Commission has acted against scams involving promissory notes. In one case, the Commission found that Charles Brown d/b/a Preferred Trust Company collected \$7 million dollars from over 100 investors in a Ponzi scheme. Although some of these investors were fortunate to receive some money back, their losses exceeded \$5 million dollars.

What's the attraction of promissory notes? According to Commissioner Jim Irvin, some investors "do

not want exposure to the risk of the general securities market and are turned off by traditional insurance products. They're attracted to this type of investment that has an aura of safety with a higher-than-market rate of return." Investors often get "real" promissory note certificates complete with official legal-sounding language and gold embossed seals.

Commissioner William A. Mundell noted that "Unlike traditional boiler-room cold callers, who solicit clients by telephone and usually have no prior relationship with them, insurance agents know their customers well. Many of the victims are older investors."

Insurance agents have an incentive to sell promissory notes, because the commissions are high. Besides life insurance agents, out-of-state investment advisers sell promissory notes that are also sold over the Internet.

Here are some tips to protect yourself and your money:

- Before investing in any promissory note, investors should always check with the Securities Division of the Corporation Commission to confirm that the notes are registered or legally exempt from registration. If you can't verify that the notes are registered or exempt from registration, hold onto your money. Also, you should beware of any investment "guaranteed" by a bond from an offshore bonding company. The Arizona Department of Insurance can verify if the bonding company is licensed to do business in Arizona.
- Agents selling these "notes" are usually required to be registered with the Securities Division of the Arizona Corporation Commission and the National Association of Securities Dealers. To find out if the agents are registered or have a disciplinary history, contact the Securities Division at 602-542-4242 or call the NASD Public Disclosure Hotline at 800-289-9999.
- Be suspicious if the notes have an above-market rate with a maturity of less than a year. With 30 year Treasury bonds yielding around 6% and the national average for a one-year FDIC-insured bank certificate of deposit just below 5%, you should be very skeptical when someone offers you a nine-month "note" from an obscure firm promising 12%.

The Corporation Commission urges the public to inquire as to the registration status of both the securities product and the securities salesmen before investing. The Securities Division may be contacted at (602) 542-4242, by fax (602) 594-7470 or by E-mail at accsec@ccsd.cc.state.az.us.